Annual Report 1981

United Siscoe Mines Inc.

The Company

United Siscoe Mines Inc. is a natural resource development and investment company concentrating on developing geothermal energy in the United States. Through its subsidiary, Geothermal Kinetics Inc., the company has major interests in the Geysers and Imperial Valley areas of California, and other areas of the western United States.

United Siscoe holds a 26¼% interest in a producing gold mine in the United States. Other interests include natural gas production in Alberta and real estate holdings in Ontario.

A substantial investment is held in Camflo Mines Limited, a leading Canadian gold producer with growing interests in natural gas in Canada and the United States.

Testing Geothermal Well

Contents

United Siscoe Mines Inc.
and subsidiary companies

Board of Directors

E. G. Arcaro, Miami, Florida
Public Relations Consultant

H. Dahl-Jensen, Unionville, Ontario
Realtor

P. W. Eggers, Dallas, Texas
Senior Partner, Eggers & Greene, Attorneys at Law

A. J. Fasken, Toronto, Ontario
Executive, Executive Vice-President,
Camflo Mines Limited

†*R. E. Fasken, Oakville, Ontario
Mining Executive, Chairman, Camflo Mines Limited

†*Maxwell Goldhar, Toronto, Ontario
President, Revenue Properties Company Limited

†K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Barrister and Solicitor, Holden, Murdoch & Finlay

H. S. Hershoran, Toronto, Ontario
President, Hillcrest General Leasing Limited

*R. M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited

*Member of the Executive Committee
†Member of the Audit Committee

Officers

R. E. Fasken — *President & Chief Executive Officer*
R. M. Smith — *Executive Vice-President*

A. J. Fasken — *Senior Vice-President*

B. K. Meikle — *Vice-President Operations*

M. E. Holt — *Vice-President Exploration*

C. B. Burton — *Vice-President Finance*

K. E. Elrick — *Treasurer*

W. R. Robertson — *Secretary*

R. D. Sherman — *Assistant Treasurer and Comptroller*

Officers Geothermal Kinetics Inc.

P. W. Eggers — *Chairman*

M. O'Donnell — *Executive Vice-President and General Manager*

J. T. Kuwada — *Vice-President Engineering*

H. D. Gerber — *Vice-President Finance, Secretary & Treasurer*

J. Bannister — *Vice-President Production*

Subsidiary and Associated Companies

Siscoe Metals of Ontario Limited

Siscoe Metals Inc.

Geothermal Kinetics Inc.

Chesbar Resources Inc.

Normandy Chibougamau Mines Limited

Camflo Mines Limited

Transfer Agent and Registrar

Canada Permanent Trust Company
Montreal and Toronto,
Bradford Trust Company, New York

Bankers

The Canadian Imperial Bank of Commerce, Toronto, Ontario
The Royal Bank of Canada, Toronto, Ontario

Solicitors

Holden, Murdoch & Finlay
Toronto, Ontario

Auditors

Peat, Marwick, Mitchell & Co.
Toronto, Ontario

Head Office

1981 McGill College, Suite 1100
Montreal, Quebec H3A 3C1

Executive Office

Suite 3001, P.O. Box 45, South Tower
Royal Bank Plaza, Toronto, Ontario M5J 2J1

Share Listing

The Toronto Stock Exchange/Montreal Exchange
Symbol USO

Special General and Annual Meeting of Shareholders

June 17, 1982, 3:00 p.m.
Lachine Room
Montreal Airport Hilton International Hotel
Dorval, Quebec

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Company's proposal to exchange its shares for shares of G.K.I. or to purchase G.K.I.'s shares for cash was completed during the year and G.K.I., which holds all the geothermal properties and interests, is now a wholly-owned subsidiary of United Siscoe Mines Inc.

Work progressed favourably on the CU-1 Venture in the Imperial Valley area of California in which the Company holds a 37.5% working interest. This programme, being financed primarily through a $49.4 million Federal Department of Energy (DOE) guaranteed loan, successfully completed its Milestone I commitments. Results of this test programme confirmed the technical, and economic feasibility of steam production for power generation and attendant disposal of the spent brine by reinjection. Work is currently underway to confirm the reservoir potential and refine operating and design criteria for preliminary plant engineering and overall final economic feasibility studies. A total of $8.5 million is allocated to cover the cost of this second phase of the three phase project.

The access road to the Rorabaugh property is scheduled to be completed by June 1, 1982 at which time the Department of Water Resources will commence site preparation for the construction of their 55 megawatt power plant. G.K.I. anticipates having their development well programme fully underway by early 1983 in order to meet the commitment of having the necessary steam production for the plant available 8 months prior to its mid-85 completion.

The Pinson Gold Mine located in northern Nevada in which the Company holds a 26.25% interest had a spectacular year. Some 13 months after start-up, it had repaid in full the original bank loan of U.S. $15.75 million and accrued interest for a total repayment of approximately U.S. $19 million in that time frame. Since March of 1982 when the loan repayment was completed, a distribution of earnings has been made to the partners and this will be continued on a regular basis throughout the year. Present ore reserves allow for continuation of this operation for at least seven years and there still remains good potential to increase reserves in the immediate area.

Mineral exploration programme activity was curtailed during the year in an effort to conserve funds for the development of assets which will produce cash flow (at an earlier date).

A settlement was concluded in connection with one of the company's land holdings, and an amount in excess of $3.9 million will be received within the next few days. This will be used mainly to retire part of the company's bank loans.

FINANCIAL RESULTS

The Pinson gold partnership, which commenced operations during 1981, has been a significant contributor to the Company's earnings. United Siscoe's share of bullion revenue from the Pinson operation amounted to $7,549,000 and $3,884,000 was contributed to operating profits.

Petroleum and natural gas revenue totalled $808,000 in 1981 compared with $774,000 in 1980. This segment of the Company's business contributed a further $420,000 to operating profits during the year.

Net results in 1981 have been adversely affected by $7,732,000 of equity in losses of the Company's affiliate, Camflo Mines Limited, a $4,518,000 loss on the disposition of substantially all of the Company's holdings in M.C.O. Resources Inc. and $1,580,000 in mineral exploration expenditures written off. Increased interest costs, which aggregated $3,768,000 compared with $1,665,000 in 1980, also adversely affected earnings.

Net loss for the year was $13,288,000 or $2.24 per share compared with a net income of $7,009,000 or $1.22 per share in 1980.

During the year, the Company issued capital stock and disposed of its marketable securities portfolio and used this financing primarily to increase the Company's investment in geothermal assets by the acquisition of the minority interests of G.K.I., and to fund directly geothermal exploration and development activities.

On behalf of the Board,

R. E. Fasken
President & Chief Executive Officer

May 11, 1982

REVIEW OF INTERESTS

GEOTHERMAL ENERGY

The following summarizes the current status of the major geothermal energy projects under development by the Company's subsidiary, Geothermal Kinetics Inc.

Geysers Area

Rorabaugh property — 100% Working Interest in 437 acres, Sonoma County, California.

Fifty-three additional acres were purchased by G.K.I and the California Department of Water Resources (DWR) to accommodate a 55,000 K.W. electric power generating plant.

DWR will own and operate the Plant which will be supplied with steam from Rorabaugh. Plant design and construction plans have been completed and orders have been placed for major equipment. Plant site preparation is scheduled to commence this summer.

To date, three commercial wells have been drilled on this property. G.K.I.'s Agreement with DWR provides for all wells (approximately 11) to be completed not later than eight months prior to commencement of plant operation scheduled for mid-1985.

Boggs Mountain Property — 100% Working Interest in 1,785 acres, Lake County, California.

An exploratory well, which was drilled to 4,000 feet during 1981, failed to encounter the geology and temperature gradients projected. After a thorough evaluation of the well logs, geology and geophysics, it was determined the prospect had limited geothermal potential.

Combs Prospect — 763 acres, Lake County, California.

This prospect was abandoned during 1981 after an exploratory well drilled by a joint venture between G.K.I. and MCR Geothermal Corporation did not identify commercial quantities of geothermal steam.

Binkley Property — 471 acres, Lake County, California.

An Agreement with the California Department of Water Resources, which provides for G.K.I. to have a 37.5% working interest, is expected to be finalized shortly. G.K.I. will commence contributing its pro-rata share of future costs after the $1.3 million contributed by DWR for drilling an exploratory well on the property has been expended.

Imperial Valley, California

South Brawley Property — 37.5% Working Interest in 11,400 acres Imperial Valley, California.

During 1981, Milestone I of a three-phase programme, which included exploration well drilling, flow testing, steam production and brine disposal, favourably confirmed the technical and economic feasibility of commercial electric power generation from this property. In November 1981, the U.S. Department of Energy (DOE), based upon the results of Milestone I, authorized disbursement of $8.5 million for Milestone II of the CU-I Venture under a $49.4 million geothermal loan guaranteed by the DOE.

In late 1981 and early 1982, two additional wells were drilled under Milestone II. These wells are currently being tested and evaluated. Initial test results to date show that these wells will meet the requirements under the DOE program. Testing of an enhanced brine handling system and the development of a preliminary engineering design for the electric generating facility are also currently underway.

The DOE guaranteed loan to the CU-I Venture is based on some 640 acres out of the total land holdings. Assuming this venture is economically successful, there remains a large acreage available for future development and expansion.

GOLD

Pinson Mining Company

United Siscoe has a 26.25% interest in the open pit Pinson gold mine located in Nevada. This is a very successful operation. Production started in February, 1981, and by the middle of March, 1982, the entire US$15.75 million bank loan plus interest had been repaid.

In 1981, 4,414,000 tons of waste, heap leaching ore and mill ore were mined of which 365,819 tons were milled. The mill grade was 0.195 ounces of gold per ton, recovery averaged 86.0% and 56,369 ounces of gold were sold at an average price of US$443.02. The cost per ton milled amounted to US$22.91 and the cost per ounce sold was US$148.68. In the last six months of 1981, the mill treated 203,707 tons, an average of 1,107 tons per day, significantly above the designed capacity of 1,000 tons per day.

Ore reserves in the main pits alone are approximately 2,900,000 tons with a conservatively estimated grade of 0.114 ounces of gold per ton. At 1,000 tons per day this is equivalent to a seven year reserve.

In 1982, the tonnage treated will increase, however, the average grade of ore treated will be lower than in 1981. In the first quarter of 1982, 101,134 tons grading 0.225 ounces of gold per ton were milled. Mining is now shifting to the lower grade 'B' ore. Heap leaching tests of stock piled, very low grade material will be accelerated. Additional drilling on the 1,340,000 ton Preble deposit will better define this ore body which is presently estimated to average 0.08 ounces of gold per ton. A modest amount of exploration of other promising targets is also scheduled to be carried out during the year.

Camflo Mines Limited

United Siscoe has further indirect interest in gold production and exploration through its investment in Camflo Mines Limited described later in this report.

GAS AND OIL

United Siscoe's gas and oil interests accounted for revenue of $808,000 compared with $774,000 in 1980. Proven reserves at December 31, 1981, substantially all of which are developed and located in Canada, are estimated to be 5.9 million cubic feet of natural gas and 39,500 barrels of oil.

A subsidiary in which the Company holds a 70.3% interest, is a joint venture partner in the development of oil and gas properties in West Virginia. Production for wells drilled under this programme has been significantly below expectation and efforts are continuing to effect improvement.

In addition Camflo Mines Limited has significant gas and oil interests.

CAMFLO MINES LIMITED

United Siscoe holds 19% of Camflo Mines Limited, a diversified natural resource company.

In 1981, the effects of falling gold prices, significant operating losses from the coal business and continued high interest rates on the increased debt were compounded by the general recessionary credit squeeze. Camflo earned an operating profit of $13 million from its continuing operations before bank interest and one-time write offs, compared with $20.1 million in 1980. An aggregate of $30.7 million was provided in anticipation of losses in exploration programmes and investments in, and advances to, the coal enterprises. When added to $13.1 million of coal operating losses, net loss for the year aggregated $43.9 million or $12.06 per share compared to a profit of $11.2 million or $3.10 per share in 1980.

Gold production from the Camflo mine in 1981, including its 40% share of Malartic Hygrade production, decreased by 11% to 44,788 ounces. Revenue decreased from $37.3 million to $24.6 million. With the Malartic stopes coming into regular production, normal mining conditions have been achieved on both sides of the boundary and the grade of ore anticipated to be mined in 1982 will be above ore reserve grades.

Revenue and profits from petroleum and natural gas interests increased 57% to $8 million in 1981. Proven and probable reserves in Canada and the United States increased significantly to 105 billion cubic feet of natural gas and 690,000 barrels of oil.

Appraisals of Camflo's producing gold property and oil and gas holdings, discounting pre income tax cash flows at 15%, based on gold at U.S. $360 per ounce and oil and gas at prices forecast in Canada's National Energy Program, placed a present value of $187 million on these assets, which are recorded in its accounts at $45 million.

Camflo, after absorbing continued operating losses from the coal mines has decided to discontinue its involvement in coal operations. All investments and advances to the coal enterprises have been written off and $5 million has been provided while an orderly plan of divestiture is implemented.

In the Red Lake area, Wilanour's Buffalo project and the Wilmar granodiorite zone were found to be uneconomic at current gold prices. Recent drilling results from the Wilmar East Breccia zone have been encouraging but funds for additional development will not be provided by Camflo and must originate from an outside source. Accordingly, Camflo has written this investment off its books.

Results of underground work at the Pandora project in Quebec were inconclusive and this project has been placed on a care and maintenance basis pending an improvement in gold prices.

Debt servicing will continue to adversely affect earnings until Camflo's bank loan can be reduced through the disposition of certain selected assets. In the first quarter of 1982 however, notwithstanding low gold prices, Camflo achieved a positive cash flow and anticipates a small profit after all interest costs.

United Siscoe

Consolidated Financial Statements
for the year ended
December 31, 1981

Consolidated Balance Sheet

as at December 31, 1981
(Expressed in thousands of dollars)

Assets	**1981**	1980
Current assets		
Cash and term deposit	**$ 1,140**	$ 654
Accounts receivable	**1,371**	561
Marketable securities (note 2)	**461**	17,002
Prepaid expenses and supplies inventory	**169**	203
	3,141	18,420
Amounts receivable from officers and directors (note 3)	**656**	693
Investment in affiliated company (note 4)	**(5,302)**	1,304
Real estate investment (note 5)	**4,749**	4,577
Petroleum and natural gas interests (note 6)	**3,377**	3,208
Property, plant and equipment (note 7)	**4,751**	5,031
Deferred geothermal exploration and development expenditures (note 8)	**43,136**	22,692
Deferred mineral exploration and development expenditures (note 9)	**1,837**	3,805
Other assets	**306**	196
	$56,651	$59,926

Liabilities

	1981	1980
Current liabilities		
Bank indebtedness (note 10)	$13,059	$13,262
Accounts payable and accrued liabilities	4,438	2,080
Notes payable to affiliate (note 11)	3,763	
Current maturities of long-term liabilities (note 12)	1,615	920
Deferred income taxes		2,777
	22,875	19,039
Long-term liabilities (note 12)	7,935	8,287
Deferred revenue (note 2)	2,271	
Deferred income taxes	3,596	2,295
Minority interest	570	4,633

Shareholders' Equity

	1981	1980
Capital Stock (note 13)		
Authorized		
7,500,000 shares without par value		
Issued		
6,712,456 shares (1980, 6,348,406 shares)	32,693	24,740
Contributed surplus	602	602
Retained earnings (deficit)	(6,504)	6,784
	26,791	32,126
Deduct the company's interest in its shares held by subsidiary and affiliated companies	7,387	6,454
	19,404	25,672
	$56,651	$59,926

Commitments and contingencies (notes 8 and 17)

On behalf of the Board

Director

Director

Consolidated Statement of Operations

Year Ended December 31, 1981
(Expressed in thousands of dollars, except per share data)

	1981	1980
Revenue		
Bullion	$ 7,549	
Petroleum and natural gas	808	$ 774
	8,357	774
Operating and administrative expenses	4,707	1,426
Interest expense (including interest on long-term liabilities of $942; 1980, $142)	3,768	1,665
Depreciation, depletion and amortization	1,047	227
Mineral exploration expenditures written off	1,580	
	11,102	3,318
	(2,745)	(2,544)
Interest and other income	318	198
Gain (loss) on sale of marketable securities	(4,518)	11
Loss on sale of interest in mineral exploration project	(292)	
Loss before income taxes and other items	(7,237)	(2,335)
Income taxes recovered (note 14)	1,601	97
Loss before undernoted items	(5,636)	(2,238)
Minority interest in loss of subsidiary company	80	10
Share of income (loss) before extraordinary item of affiliated company	(3,907)	1,909
Loss before extraordinary items	(9,463)	(319)
Extraordinary items		
Gain on disposal of interest in geothermal prospect, net of deferred taxes of $5,072 and minority interest		7,295
Realization of income tax benefits not recorded in prior years		33
Share of loss on discontinuance of coal operations of affiliated company	(3,825)	
Net income (loss)	$(13,288)	$ 7,009
Income (loss) per share		
Loss before extraordinary items	$ (1.60)	$ (.06)
Net income (loss)	$ (2.24)	$ 1.22

Consolidated Statement of Retained Earnings (Deficit)

Year Ended December 31, 1981
(Expressed in thousands of dollars)

	1981	1980
Retained earnings (deficit) at beginning of year	$ 6,784	$ (225)
Net income (loss)	(13,288)	7,009
Retained earnings (deficit) at end of year	$ (6,504)	$ 6,784

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981
(Expressed in thousands of dollars)

	1981	1980
Working capital derived from		
Issue of capital stock	$ 7,953	$ 3,300
Increase in long-term liabilities	4,043	7,930
Proceeds from disposal of interest in mineral exploration project	292	
Disposal of interest in geothermal prospect, net of deferred income taxes		13,377
Disposal of shares of the company owned by a subsidiary, Chesbar Resources Inc.		1,466
Increase in deferred revenue	2,271	
Other		188
	14,559	26,261
Working capital applied to		
Operations	985	1,068
Additions to		
Petroleum and natural gas interests	359	2,577
Geothermal exploration and development expenditures	11,211	6,325
Mineral exploration and development expenditures	388	1,372
Property, plant and equipment	517	4,691
Real estate investment	172	31
Investment in affiliated company	2,376	
Investment in subsidiary company	13,198	
Retirement of long-term liabilities	4,395	2,454
Other	73	
	33,674	18,518
Increase (decrease) in working capital	(19,115)	7,743
Working capital deficiency at beginning of year	619	8,362
Working capital deficiency at end of year	$ 19,734	$ 619

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of United Siscoe Mines Inc. as at December 31, 1981 and the consolidated statements of operations, retained earnings (deficit) and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 30, 1982.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended December 31, 1981
(Tabular amounts in thousands)

The company is incorporated under the Companies Act (Quebec) and is a public company listed on the Toronto and Montreal Stock Exchanges. Approximately 45 percent of the issued shares of the company are owned by Camflo Mines Limited. The principal activities of the company are exploration for and development of geothermal resources, gold mining and petroleum and natural gas production. The company also holds real estate and other investments.

1. Summary of Significant Accounting Policies

(a) Basis of presentation

General

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Subsidiary companies

The consolidated financial statements include the accounts of the company, Geothermal Kinetics Inc., a wholly owned U.S. subsidiary (1980, 84%) and Chesbar Resources Inc. which is 70% owned. All material intercompany transactions and balances have been eliminated.

Joint ventures and partnership

The company conducts various mineral and geothermal programs and substantially all of its petroleum and natural gas activities jointly with others. These financial statements reflect the company's proportionate interest in such activities.

Affiliated company

The company accounts for its investment in Camflo Mines Limited which is 19% owned (1980, 16%) using the equity method.

Intercompany shareholdings

Certain subsidiary and affiliated companies own shares in the company. The company's interest in the carrying value of such shares has been deducted from shareholders' equity.

(b) Translation of foreign subsidiaries' (U.S.) financial statements

U.S. currency transactions and account balances have been translated into Canadian dollars as follows:

(i) Current assets and liabilities, at exchange rates prevailing at the year end;

(ii) All other assets and liabilities, at exchange rates prevailing at the date the assets were acquired or the liabilities incurred;

(iii) Revenue and expenses, at the average rate for the year except for depreciation, depletion and amortization which is based on the cost of assets as translated;

(iv) Unrealized foreign exchange gains and losses are included in operations.

(c) Marketable securities

Marketable securities are carried at the lower of cost and market. Gains and losses on sales of marketable securities are determined based on the average cost of the shares held.

(d) Petroleum and natural gas interests

The company follows the full cost method of accounting for petroleum and natural gas whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized using North America as one geographic area. Such costs include acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are ordinarily credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis

over the estimated useful lives of the respective assets. Capitalized leased equipment is amortized on a straight-line basis over the terms of the respective leases.

The property, plant and equipment situated at Niagara Falls, Ontario is being carried at its estimated realizable value which is the lease purchase option price net of rents received to date and any proceeds on disposition of plant equipment therein.

(f) Deferred geothermal exploration and development expenditures

The company's geothermal operations are in the development stage and no significant production revenue has been received. The primary activity is geothermal resource exploration and development, particularly with respect to geothermal steam for sale for the generation of electricity.

In accordance with the accounting principles applicable to a development stage company, the company defers all costs associated with the geothermal operations, net of incidental revenues. Such costs include leasehold acquisition and holding costs, geological and geophysical costs, tangible and intangible drilling costs, interest costs, and administrative costs and depreciation of equipment. When the company attains commercial levels of production, the deferred geothermal exploration and development costs will be amortized against production revenues. The method of amortization will be determined when production occurs and will be based on the most rational method available, considering industry technology at that time.

Proceeds received on normal disposals of geothermal properties are credited against such costs. Upon major sales of geothermal properties the cost thereof and accumulated amortization are removed from the accounts and any gain or loss is charged to income.

(g) Deferred mineral exploration and development expenditures

Expenditures on mineral exploration programs are deferred on a specific project basis until the viability of the project is determined. When a project is discontinued, the accumulated project costs are charged to operations. At the time a project is developed the related accumulated costs are amortized over the productive life of the property. Mine development costs incurred to maintain current production are included in operating costs.

(h) Retirement plans

The company maintains retirement plans covering substantially all Canadian employees. Retirement plan expense is accrued and funded currently and includes current costs and the amortization of the unfunded past service costs relating to the company pension plan over a fifteen year period.

(i) Income (loss) per share

Income (loss) per share is calculated on the weighted average number of shares outstanding after deducting intercompany shareholdings.

(j) Certain comparative figures for 1980 have been reclassified to conform with financial statement presentation adopted in 1981.

2. Marketable Securities

	1981	1980
MCO Resources Inc., at lower of cost $633,000 (1980, $16,214,000) and market $461,000 (1980, $25,479,000)	**$ 461**	$16,214
Other marketable securities		788
	$ 461	$17,002

During 1981 the company sold the other marketable securities above to Camflo Mines Limited for cash consideration of $2,563,000 which approximated market value at the time of sale. As the company uses the equity method of accounting for its investment in Camflo the gain on the transaction is included in deferred revenue until such time as the marketable securities are sold by Camflo.

3. Amounts Receivable from Officers and Directors

	1981	1980
Interest bearing notes (substantially at 7%), due over the period to 1983, receivable from officers and directors of the company or a subsidiary in respect of the purchase of shares of the company secured by shares of the company, including accrued interest	**$ 752**	$ 717
Interest bearing mortgages (substantially at 7%), due over the period to 1983, receivable from officers of the company or a subsidiary	**210**	50
	962	767
Less current maturities, included in accounts receivable	**306**	74
	$ 656	$ 693

4. Investment in Affiliated Company

	1981	1980
Camflo Mines Limited		
Shares at cost	**$ 5,933**	$ 3,557
Share of undistributed earnings (losses)	**(4,981)**	3,067
	952	6,624
Less the company's pro rata interest in those of its own shares which are owned by Camflo Mines Limited	**6,254**	5,320
	$ (5,302)	$ 1,304

The excess of the cost of the investment in Camflo over the company's share of the underlying assets at the dates of acquisition has been attributed to petroleum and natural gas interests and gold prospects.

The shares of Camflo are pledged as collateral for bank loans (notes 10 and 12) and for amounts due to brokers included in accounts payable and accured liabilities.

The quoted market value of the company's holdings as at December 31, 1981 was $14,771,000. At April 30, 1982 the quoted market value of these holdings was $6,439,000. Because of the large shareholding such values are not necessarily indicative of the amount which might be realized if the shares were to be sold.

During 1981 the company bought 5,300 shares of Camflo from an affiliated company at market value.

Information with respect to the consolidated financial position and operations of Camflo is as follows:

CAMFLO MINES LIMITED
Condensed Consolidated Balance Sheet
As at December 31, 1981

	1981	1980 (restated)
Assets		
Current assets	**$ 14,433**	$ 7,904
Investments	**33,631**	31,333
Net assets of discontinued coal operations		16,442
Fixed assets	**3,683**	2,372
Petroleum and natural gas interests	**42,665**	34,297
Other assets and deferred expenditures	**13,756**	12,456
	$108,168	$104,804
Liabilities		
Current liabilities	**$ 14,449**	$ 10,803
Long-term liabilities	**83,440**	39,450
Deferred income taxes	**13,407**	12,107
Minority interest	**2,946**	2,184
	114,242	64,544
Shareholders' equity (deficiency)	**(6,074)**	40,260
	$108,168	$104,804

CAMFLO MINES LIMITED
Condensed Consolidated Statement of Operations
Year ended December 31, 1981

	1981	1980 (restated)
Revenue	$ 32,565	$ 42,340
Expenses	34,783	22,237
	(2,218)	20,103
Other items	(8,107)	(4,244)
Income (loss) from continuing operations	(10,325)	15,859
Loss from discontinued operations	(13,056)	(4,629)
Income (loss) before extraordinary item	(23,381)	11,230
Loss on discontinuance of coal operation	(20,509)	
Net income (loss)	$ (43,890)	$ 11,230
Income (loss) per share		
From continuing operations	$ (2.83)	$ 4.38
Before extraordinary item	$ (6.42)	$ 3.10
Net income (loss)	$ (12.06)	$ 3.10

Camflo's coal operations incurred significant operating losses during the year, were in default of certain lease obligations and require substantial funding to retire debt currently due. Camflo has written off its investment in its coal operations and has provided for all costs anticipated to be incurred until an orderly disposition is made, which is expected to occur by December 31, 1982. The coal operation assets and liabilities have not been included in Camflo's consolidated balance sheet as at December 31, 1981 and its results of operations for the year ended December 31, 1981 have been shown separately in Camflo's statement of operations. The comparative figures for 1980 have been restated to conform with the 1981 presentation. Such restatement had no effect on Camflo's consolidated net income or shareholders' equity.

5. Real Estate Investment

	1981	1980
Land held for resale (a)		
Land, at cost	$ 2,351	$ 2,351
Carrying and development costs	1,790	1,686
	4,141	4,037
Cost of land sold in excess of proceeds received to date (b)	608	540
	$ 4,749	$ 4,577

(a) The land held for resale is in an area for which the permitted use is high quality industrial development and a fixed and floating charge debenture secured by the property is lodged as collateral for bank indebtedness. (note 10).

(b) In 1981 the Land Compensation Board heard an application for additional cash consideration from the Government of Ontario under the provisions of the Expropriations Act, Ontario. The application related to a transaction in 1976 involving the sale of a portion of the land held for resale. In December 1981 the Land Compensation Board ordered the Government of Ontario to pay additional cash consideration plus interest at 6% per annum, however, in January 1982 this decision was appealed by the Government of Ontario. Negotiations are in process to settle this claim.

6. Petroleum and Natural Gas Interests

	1981	1980
Petroleum and natural gas properties together with exploration and development thereon and related production equipment	$ 4,066	$ 3,707
Accumulated depreciation, depletion and amortization	689	499
	$ 3,377	$ 3,208

The petroleum and natural gas interests have been pledged as collateral for bank loans (notes 10 and 12).

A subsidiary, Chesbar Resources Inc., has entered into a joint venture agreement with another related company, Grandad Resources Inc., to participate in the development of certain oil and gas properties in the United States. Under the related agreements the company will pay Grandad 7½% of the net revenue from the properties. Included in petroleum and natural gas interests at December 31, 1981 is approximately $250,000 advanced as the cost of drilling the wells not yet completed.

7. Property, Plant and Equipment

	1981	1980
Pinson mine property		
Buildings and equipment	**$ 4,857**	$ 4,474
Geothermal operations		
Research and other equipment	**634**	498
Equipment under capital lease	**182**	182
Other		
Niagara Falls, Ontario property	**1,451**	1,453
Other	**220**	220
	7,344	6,827
Less accumulated depreciation	**2,593**	1,796
	$ 4,751	$ 5,031

The company has leased its property, buildings and equipment situated at Niagara Falls, Ontario for the period to December 31, 1983 and has granted to the lessee an option to acquire the property on that date. The annual rentals over the remaining term of the lease amount to $60,000 per annum.

The Pinson mine property assets are pledged as collateral for bank loans (note 12).

8. Deferred Geothermal Exploration and Development Expenditures

	1981	1980
Geological and geophysical costs	**$ 3,466**	$ 2,061
Leasehold costs	**2,905**	1,933
Tangible and intangible drilling costs	**15,925**	10,767
Exploration costs	**646**	456
Materials and supplies	**1,581**	833
Interest costs	**2,286**	847
Administrative costs, net	**4,706**	3,275
	31,515	20,172
Excess of cost of acquiring the shares of G.K.I. over book value at dates of acquisition, allocated to the geothermal project	**11,621**	2,520
	$43,136	$22,692

The recovery of deferred costs, including the allocated excess cost of acquiring the shares of Geothermal Kinetics Inc. (G.K.I.), depends on the company's ability to finance and develop sufficient revenues from production.

In 1977 G.K.I. entered into an agreement with the California Department of Water Resources (DWR) to provide steam from the Rorabaugh prospect (100% owned by G.K.I.). The provisions of the contract require production and delivery of sufficient steam to operate a 55 megawatt electrical generating plant. Management anticipates that the cost of drilling additional wells, together with installation costs of lines to gather and deliver steam to the generating stations and other development requirements, will be approximately U.S. $46,000,000. As of December 31, 1981, three wells and certain other development work had been completed at a cost of U.S. $6,300,000. Management is pursuing financing arrangements for the geothermal development of this prospect.

G.K.I. entered into a letter of intent during 1978 with the DWR and a joint venturer whereby G.K.I. and the venturer would transfer to DWR a 7% carried interest in the Francisco property and commit to drill a well on the Binkley prospect in exchange for G.K.I. and the venturer together receiving a 75% interest in the Binkley prospect and approximately U.S. $1,200,000 which management estimated would substantially cover the cost of the well. The 7% interest in the Francisco property was assigned to DWR during 1978; however, the transaction was not formally completed and DWR has returned the assignment to G.K.I. G.K.I. and the venturer are currently in negotiations regarding the Binkley prospect. The preceding events have had no effect on total prospect costs.

In 1980, the Department of Energy granted the CU I Venture a $49,400,000 loan guarantee, secured by the venturers' interests in the prospect (note 12). The development loan may be used to fund up to 75% of the venture's costs as detailed in a project plan approved by the bank and the Department of Energy.

9. Deferred Mineral Exploration and Development Expenditures

	1981	1980
Producing property		
Pinson — gold (United States), less accumulated amortization	**$ 1,504**	$ 1,679
Exploration properties		
Kasmere — uranium		986
Iberian — silver		837
Pronto — potash	**325**	201
Other	**8**	102
	$ 1,837	$ 3,805

The company's ability to recover exploration expenditures deferred on the various projects depends on its ability to develop sufficient reserves for production.

The company participates in the Pronto project with certain related companies as well as other companies.

10. Bank Indebtedness

The operating bank loans are payable on demand and are secured by assignment of certain accounts receivable and petroleum and natural gas interests, the shares of Camflo Mines Limited, Chesbar Resources Inc., and Geothermal Kinetics Inc., and by a fixed and floating charge debenture on the land held for resale.

11. Notes Payable to Affiliate

The demand notes payable to an affiliated company, Camflo Mines Limited, bear interest at the bank prime rate plus 1½%, and are secured by the shares of a subsidiary company, Siscoe Metals, Inc., which owns the company's partnership interest in the Pinson gold property.

12. Long-Term Liabilities

	1981	1980
Bank term loan, due 1982 to 1983	**$ 380**	$ 620
Bank term loan (Pinson) (U.S. 1981 $999,000; 1980, $3,872,000)	**1,184**	4,543
Note payable to bank (CU 1 Venture) (U.S. 1981, $5,483,000; 1980, $2,898,000)	**6,488**	3,388
Notes payable	**436**	
Obligation under capital leases	**121**	152
8% promissory note		70
Liability under retirement plan	**941**	434
	9,550	9,207
Less current maturities	**1,615**	920
	$ 7,935	$ 8,287

Maturities due in the four years subsequent to 1982 are:

1983	$455,000	1984	$102,000
1985	$334,000	1986	$223,000

Bank term loan, due 1982 to 1983

The bank term loan bears interest at the bank prime rate plus ¾% and is secured by substantially the same security as the bank indebtedness (note 10).

Bank term loan (Pinson)

The loans bear interest at the bank's prime rate plus 1%. All buildings and equipment of the Pinson partnership and inventory owned and subsequently acquired during the term of the loan have been pledged as collateral. Subsequent to December 31, 1981 this loan was repaid.

Note payable to bank (CU I Venture)

During 1980, the Department of Energy granted the CU I Venture a U.S. $49,400,000 loan guarantee, secured by the venturers' interest in the prospect, to provide additional financing for geothermal development. The loan is with a bank, bears interest at ¾% above the bank's prime rate and requires principal payments commencing the earlier of the date revenues from electrical generation are received from the prospect or five years after the first draw under the loan. Repayment will be in twenty-three monthly instalments based on a twenty-five year amortization schedule followed by a final payment in the twenty-fourth month for remaining unpaid principal. The venture intends to convert this development loan to long term financing when the loan becomes due. Interest on the note payable for 1981 has been capitalized in deferred geothermal exploration and development expenditures in the consolidated balance sheet in the amount of $1,363,000 (1980, $382,000).

Based on the exchange rate prevailing at December 31, 1981 $6,865,000 would be required to discharge the long term portion of the foreign currency debt outstanding at December 31, 1981, which amount approximates the amount at which such long-term debt is included in the table above.

13. Capital Stock

In July, 1981 the company acquired the 16.4% minority interest in capital stock of Geothermal Kinetics Inc. Under the terms of the arrangement, the company acquired 728,100 shares of G.K.I. in exchange for 364,050 shares of the company valued at $21.84 per share.

In January 1981 the company set aside 300,000 authorized and unissued shares which may be granted to officers and key employees under a stock option plan. In April, 1981 the directors of the company granted options on 13,125 shares of the company to three officers of G.K.I. at the exercise price of $18.45 per share.

14. Income Taxes

At December 31, 1981, the company and its subsidiaries had non capital tax loss carry forwards available to reduce taxable incomes of future years. These losses are restricted to fiscal years not later than:

	Canadian Companies	United States Companies
1982	$ 292	
1983	415	
1984	1,122	
1985	1,146	
1986	2,181	
1991		$1,237
1993		714
1994		6,954
1995		4,720
1996		616

In addition the Canadian companies have accumulated net capital losses of approximately $417,000 which may be carried forward indefinitely for application against future taxable capital gains.

To December 31, 1981, the net of certain expenses deducted for income tax purposes by the company and its subsidiaries exceeded the amounts recorded as expenses in the consolidated statements of income by approximately $9,000,000.

The benefit relating to these tax loss carry forwards and timing differences will be recognized for accounting purposes as realized in future years by recording deferred taxes.

The income tax recovery in 1981 represents a reduction of deferred income taxes of $1,505,000 in respect of the loss on sale of marketable securities held by a subsidiary company, and a Canadian provincial credit with respect to Crown royalties paid to that province.

15. Business Segments

The Company's operations consist of four business segments: petroleum and natural gas production, gold mining, mineral exploration and geothermal exploration and development. Presented below are segmented data relative to these activities.

	1981 Operating revenue	1981 Operating profits (losses)	1980 Operating revenue	1980 Operating profits (losses)
Gold mining	**$7,549**	**$ 3,884**		
Petroleum and natural gas	**808**	**420**	$ 774	$ 568
Mineral exploration		**(1,634)**		(32)
Geothermal				
	$8,357	**2,670**	$ 774	536
Unallocable expenses				
Administration		**(1,659)**		(1,339)
Interest		**(3,768)**		(1,665)
Corporate depreciation		**(74)**		(76)
Other income (loss), net		**(4,406)**		209
Loss before income taxes		**$(7,237)**		$(2,335)
By geographic area				
Canada	**$ 467**	**$ (775)**	$ 663	$ 573
United States	**7,890**	**4,034**	111	(37)
Spain		**(589)**		
	$8,357	**$ 2,670**	$ 774	$ 536

	1981	1980
Identifiable assets by geographic area		
Canada	**$ 400**	$ 1,532
United States	**53,549**	31,867
Spain		837
	$53,949	$34,236
Industry segments		
Identifiable assets		
Gold mining	**$ 5,799**	
Petroleum and natural gas	**3,377**	$ 3,208
Mineral exploration	**333**	7,998
Geothermal exploration and development	**44,440**	23,030
	53,949	34,236
Corporate assets	**8,004**	24,386
Investment in affiliated company	**(5,302)**	1,304
Total assets	**$56,651**	$59,926
Capital expenditures		
Gold mining	**$ 399**	
Petroleum and natural gas	**359**	$ 2,577
Mineral exploration	**372**	5,846
Geothermal exploration and development	**11,345**	6,488
Corporate		54
	$12,475	$14,965
Depreciation, depletion and amortization expense		
Petroleum and natural gas	**$ 190**	$ 151
Gold mining	**783**	
Corporate	**74**	76
	$ 1,047	$ 227

16. Related Party Transactions

In addition to the items discussed in note 3, accounts receivable include $255,000 receivable from affiliated companies, and accounts payable include $594,000 payable to affiliated companies.

Fees for legal and consulting services totalling approximately $428,000 (1980, $471,000) have been paid to professionals who are directors of the company, a subsidiary or a related company.

The company shares office premises with certain related companies and certain administrative expenses are allocated amongst the companies.

17. Commitments

The pension plan unfunded past service liability of the company and its subsidiaries and affiliates amounted to $276,000 based on the most recent actuarial valuation dated December 31, 1979. Under the provisions of the retirement plans, the payments required to be made by Camflo, which equal the payments required by the company, may in certain circumstances become a liability of the company.

Management Report

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the financial statements.

R. E. Fasken, President

C. B. Burton, Vice-President Finance